

BLUFF SERVICE AREA
FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006

BLUFF SERVICE AREA
(A COMPONENT UNIT OF SAN JUAN COUNTY)
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FOR THE YEAR ENDED DECEMBER 31, 2006

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(A COMPONENT UNIT OF SAN JUAN COUNTY)
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SMUIN, RICH & MARSING

CERTIFIED PUBLIC ACCOUNTANTS

294 East 100 South

Price, Utah 84501

Phone (435) 637-1203 • FAX (435) 637-8708

CRAIG G. SMUIN, C.P.A.
R. KIRT RICH, C.P.A.
GREG MARSING, C.P.A.
DOUGLAS RASMUSSEN, C.P.A.

MEMBERS
AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS
UTAH ASSOCIATION OF CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

Administrative Control Board
Bluff Service Area
Bluff, Utah 84512-0310

We have audited the accompanying financial statements of the governmental activities and each major fund of Bluff Service Area (a component unit of San Juan County), as of and for the year ended December 31, 2006, which collectively comprise the Service Area's basic financial statements as listed in the table of contents. These basic financial statements are the responsibility of Bluff Service Area's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of Bluff Service Area as of December 31, 2006, and the respective changes in financial position, and the budgetary comparison for the General Fund and Capital Projects Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated July 31, 2007 on our consideration of Bluff Service Area's internal control over financial reporting and on our test of its compliance with certain provisions of laws, regulations, contracts and grants agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management, Discussion and Analysis on pages 3 through 8 is not a required part of the basic financial statements, but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

SMUIN, RICH & MARSING

A handwritten signature in cursive script, appearing to read "Laurie, Rich & Marsing", written in dark ink.

Price, Utah

July 31, 2007

**BLUFF SERVICE AREA
(A COMPONENT UNIT OF SAN JUAN COUNTY)
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2006**

Our discussion and analysis of Bluff Service Area financial performance provides an overview of the Service Area's financial activities for the fiscal year ended December 31, 2006.

FINANCIAL HIGHLIGHTS

- ❖ During January of 2006 Bluff Service Area and Bluff Water Works separated into two entities. Bluff Water Works now has control over the Water System and collects those service charges from its customers as revenue. The following information is given on Bluff Service Area as a separate entity for the year of 2006.
- ❖ The Service Area's net assets increased \$59,991 as a result of this year's operations. Net assets of our governmental activities (the only activity the Service Area has) increased by 9.43%.
- ❖ Total program expenses of \$294,356, were not offset by program revenues.
- ❖ Operating grants of \$7,130 and capital grants and contributions of \$70,210 totaled \$77,340.
- ❖ Charges for services for the year ending December 31, 2006 were \$10,045.
- ❖ Intergovernmental revenue of \$254,896 was the largest source of revenue.
- ❖ Interest earned in 2006 totaled \$1,837 and property tax \$10,209.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the Service Area's basic financial statements. The Service Area's financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The *government-wide financial statements* are designed to provide readers with a broad overview of the Service Area's finances, in a manner similar to private-sector business.

The *Statement of Net Assets* presents information on all of the Service Area's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Service Area is improving or deteriorating.

The *Statement of Activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

FUND FINANCIAL STATEMENTS

A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Service Area, like other local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Service Area are governmental funds. Prior to 2006 the Service Area operated as an enterprise fund, and there were no fund statements presented.

Governmental Funds

Governmental funds are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on the balance of spendable resources available at the end of the year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The Service Area maintains two individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund and the capital projects fund, each of which are considered to be major funds.

The Service Area adopts an annual appropriated budget for all its governmental funds. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with that budget.

Refer to the table of contents for the location of the basic governmental fund financial statements.

Proprietary Funds

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The Service Area formerly functioned as a proprietary fund, but does not have any proprietary funds currently.

Fiduciary Funds

Fiduciary funds are used to account for resources held for the benefit of parties outside the government. The Service Area does not hold any funds or property in a trustee capacity. Consequently, the Service Area does not have any fiduciary funds.

NOTES TO THE FINANCIAL STATEMENTS

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes are an essential part of the basic financial statements.

FINANCIAL ANALYSIS

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the Service Area, assets exceed liabilities by \$59,991 at the close of 2006.

At the end of the year, the Service Area is able to report positive balances in both the restricted and unrestricted net assets, both for the government as a whole, as well as for its separate governmental activities.

NET ASSETS

	GOVERNMENTAL TYPE ACTIVITIES 2006	BUSINESS TYPE ACTIVITIES 2005
ASSETS		
Current and other assets	\$ 146,810	\$ 242,972
Capital assets (net)	549,125	1,540,676
Total assets	\$ 695,935	\$ 1,783,648
LIABILITIES		
Current liabilities	\$ 84	\$ 19,845
Long-term liabilities		55,901
Total liabilities	\$ 84	\$ 75,746
NET ASSETS		
Invested in Capital Assets, net of debt	\$ 549,125	\$ 1,473,422
Restricted for Capital Projects	67,523	
Unrestricted	79,203	234,480
Total net assets	\$ 695,851	\$ 1,707,902

FINANCIAL ANALYSIS (Continued)

Net Assets of the Service Area are \$695,851, an increase of \$59,991 for the year 2006, with the \$1,072,042 adjustment due to the separation of Bluff Service Area and Bluff Water Works. *Unrestricted* net assets – the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements – are \$79,203 at the end of the year. *Restricted* net assets, the part of net assets that has been restricted for capital improvements, are \$67,523.

CHANGES IN NET ASSETS

	GOVERNMENTAL TYPE ACTIVITIES 2006	BUSINESS- TYPE ACTIVITIES 2005
REVENUES		
Program Revenues:		
Charges for services	\$ 10,045	\$ 77,892
Operating grants and contributions	7,130	10,551
Capital grants and contributions	70,210	51,694
General Revenues:		
Property taxes	10,209	7,818
Intergovernmental revenue	254,896	
Miscellaneous	20	1,823
Interest income	1,837	3,432
Total revenues	<u>\$ 354,347</u>	<u>\$ 153,210</u>
EXPENSES		
Program Expense:		
General government	<u>\$ 294,356</u>	<u>\$ 154,891</u>
Change in net assets	<u>\$ 59,991</u>	<u>\$ (1,681)</u>
Net assets - beginning	\$ 1,707,902	\$ 1,709,583
Adjustment due to separation of Bluff Service Area and Bluff Water Works	(1,072,042)	
Net assets - ending	<u>695,851</u>	<u>1,707,902</u>
Change in net assets	<u>\$ 59,991</u>	<u>\$ (1,681)</u>

FINANCIAL ANALYSIS (Continued)

Intergovernmental revenue and grants were a large revenue source for 2006. These revenues enable the Service Area to fund a variety of capital improvement projects. Because of the increase in these funds, the Service Area has taken the opportunity to fund projects in the current and upcoming year that are important to bring the community in compliance with state requirements and resolve safety and health issues.

The cost of all governmental activities this year was \$294,356. As shown in the Statement of Activities on page 11, the amount that charges for services revenue ultimately paid for these activities was minimal. Overall, the Service Area has a small amount of governmental program revenues from services and relies heavily on grants and intergovernmental revenue to administer the activities of the Service Area.

The Service Area is striving each year to provide sufficient revenue to cover the operating costs of the Service Area. The ability to continue to operate efficiently and provide the necessary services for the Service Area continues to be the main goal and focus of the Service Area. The Service Area realizes that fluctuations will occur from year to year and billing practices can only generate the revenue that should be billed. We are continuing to monitor the funds that are needed to support the activities of the Service Area and realize that sufficient revenues need to be received to ensure that our goals and objectives have an adequate revenue stream that will allow for our future plans.

Use of funds is controlled and authorized by the Service Area's Administrative Control Board. The Board reviews the monthly financial information, compares year to date expenses to budget and makes necessary suggestions and/or corrections. The Administrative Control Board approves all major capital expenditures. The Board approves an annual operational budget and forwards it to San Juan County. They also submit copies of the budget to the State Auditor as required by Utah State law.

DEBT MANAGEMENT

As of December 31, 2006, the Service Area had no outstanding debt. The original debts totaled \$258,300 and were accepted by the Board at various times for the purpose of cost of acquisition, construction, furnishing and equipping the water facility and establishing property to house the business operations. Most of the debt was transferred to Bluff Water Works at the separation of the two entities in January 2006. More detailed information about the Service Area's long-term liabilities is presented in note 4 on page 23 of this report.

GENERAL FUND BUDGETARY HIGHLIGHTS

Over the course of the year the Service Area revised their general fund budget once. The original 2006 budget was adopted on December 7, 2005 and was amended on December 6, 2006. The original budget submitted to the Utah State Auditors office was \$280,780 and the revised one was \$280,716. After the audit adjustments, the actual expenditures amounted to \$277,085. The budget was under spent by \$3,631.

CAPITAL ASSETS

As of December 31, 2006, the Service Area had net capital assets of \$549,126. Budgets have been created that account for the capital project expenditures and Board approval is needed for all major capital expenditures. The following table shows the balance of net capital assets at December 31, 2006.

Capital Assets at Year-end (Net of Depreciation) 2006

	Governmental Activities 2006	Business-Type Activities 2005
Land	\$ 39,300	\$ 39,300
Buildings/building improvements	443,105	458,076
Improvements other than buildings		1,036,315
Equipment	4,210	6,985
Work in progress	62,510	
Net capital assets	\$ 549,125	\$ 1,540,676

This year's major additions included:

Work on the secondary water system and wastewater	\$62,510
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The District's fiscal year 2007 capital budget will expend additional funds for the development of these projects.

ECONOMIC FORECAST AND FUTURE BUDGET

The Administrative Control Board is still relying on Property tax collection, charges for services, grants and other funds to balance the current year (2007) budget.

This year's Service Area's budget was substantially different in total income and expenses from prior years'. What was one entity in the service area has been divided into two separate entities as of January 1, 2006. Bluff Service Area continues with its operations and another entity, Bluff Water Works, records its transactions as a separate entity and reports to the State of Utah as a separate entity. The Administrative Control Board continues to operate the Service Area based on information made available to the Board from internal resources (workers and Board members) and external sources (trained and educated professionals.) We will continue to have planning meetings to implement the desired results.

The Service Area has engaged a contractor to develop a plan for the waste water system. The plan will be used to go to the State of Utah for grants and/or loans to aid in the development of the plan. A waste water system is necessary for the Bluff area and this will continue to be our main focus for the next few years. Additionally, the Service area is continuing investigations into the development of a secondary water system and a storm water system and will likely pursue funding to further these projects.

CONTACTING THE SERVICE AREA'S FINANCIAL MANAGEMENT

This financial report is designed to provide a general overview of Bluff Service Area finances and to show the Service Area's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Administrative Control Board at P.O. Box 310, Bluff, Utah, 84512.

BLUFF SERVICE AREA
(A COMPONENT UNIT OF SAN JUAN COUNTY)
STATEMENT OF NET ASSETS
DECEMBER 31, 2006

	<u>GOVERNMENTAL ACTIVITIES</u>
<u>ASSETS</u>	
Current Assets:	
Cash and cash equivalents, unrestricted	\$ 78,579
Cash, restricted	3,232
Investments, restricted	37,562
Accounts receivable	26,729
Taxes receivable	708
	<hr/>
Total current assets	\$ 146,810
	<hr/>
Noncurrent Assets:	
Capital Assets, net of accumulated depreciation	
Land	\$ 39,300
Buildings/Building improvements	443,105
Equipment	4,210
Work in progress	62,510
	<hr/>
Total noncurrent assets	\$ 549,125
	<hr/>
Total assets	\$ 695,935
	<hr/> <hr/>

"The accompanying notes are an integral part of this statement."

BLUFF SERVICE AREA
(A COMPONENT UNIT OF SAN JUAN COUNTY)
STATEMENT OF NET ASSETS
DECEMBER 31, 2006

	<u>GOVERNMENTAL ACTIVITIES</u>
<u>LIABILITIES AND NET ASSETS</u>	
Current Liabilities:	
Payroll taxes payable	\$ 84
	<hr/>
Total current liabilities	\$ 84
	<hr/>
Total liabilities	\$ 84
	<hr/>
Net Assets:	
Investment in capital assets, net of related debt	\$ 549,125
Restricted for:	
Capital projects	67,523
Unrestricted	79,203
	<hr/>
Total net assets	\$ 695,851
	<hr/>
Total liabilities and net assets	\$ 695,935
	<hr/> <hr/>

"The accompanying notes are an integral part of this statement."

BLUFF SERVICE AREA
(A COMPONENT UNIT OF SAN JUAN COUNTY)
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2006

		Program Revenues			Net (Expense) Revenue and Changes in Net Assets
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
<u>FUNCTION/PROGRAMS</u>					
Primary Government:					
Governmental activities:					
General government	\$ 294,356	\$ 10,045	\$ 7,130	\$ 70,210	\$ (206,971)
Total governmental activities	\$ 294,356	\$ 10,045	\$ 7,130	\$ 70,210	\$ (206,971)
General Revenues:					
Property tax					\$ 10,209
Intergovernmental revenue					254,896
Investment earnings					1,837
Miscellaneous					20
Total general revenues, special items, and transfers					\$ 266,962
Change in net assets					\$ 59,991
Net assets - beginning					1,707,902
Adjustment due to separation of Bluff Water Works					(1,072,042)
Net assets - ending					\$ 695,851

"The accompanying notes are an integral part of this statement."

BLUFF SERVICE AREA
(A COMPONENT UNIT OF SAN JUAN COUNTY)
BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2006

	GENERAL FUND	CAPITAL PROJECTS	TOTAL GOVERNMENTAL FUNDS
<u>ASSETS</u>			
Cash and cash equivalents, unrestricted	\$ 78,579		\$ 78,579
Cash, restricted		\$ 3,232	3,232
Investments, restricted		37,562	37,562
Accounts receivable		26,729	26,729
Taxes receivable	708		708
	<hr/>	<hr/>	<hr/>
Total assets	\$ 79,287	\$ 67,523	\$ 146,810
	<hr/>	<hr/>	<hr/>
<u>LIABILITIES AND FUND BALANCES</u>			
LIABILITIES:			
Payroll taxes payable	\$ 84		\$ 84
	<hr/>	<hr/>	<hr/>
Total liabilities	\$ 84	\$...	\$ 84
	<hr/>	<hr/>	<hr/>
FUND BALANCES:			
Reserved for:			
Capital projects fund		\$ 67,523	\$ 67,523
Unreserved, reported in:			
General fund	\$ 79,203		79,203
	<hr/>	<hr/>	<hr/>
Total fund balances	\$ 79,203	\$ 67,523	\$ 146,726
	<hr/>	<hr/>	<hr/>
Total liabilities and fund balances	\$ 79,287	\$ 67,523	\$ 146,810
	<hr/>	<hr/>	<hr/>

"The accompanying notes are an integral part of this statement."

BLUFF SERVICE AREA
(A COMPONENT UNIT OF SAN JUAN COUNTY)
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS
DECEMBER 31, 2006

Total fund balances - governmental fund types: \$ 146,726

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and, therefore are not reported in the funds.

Land	\$	39,300	
Buildings		443,105	
Equipment		4,210	
Work in progress		62,510	
		549,125	549,125

Net assets of governmental activities \$ 695,851

"The accompanying notes are an integral part of this statement."

BLUFF SERVICE AREA
(A COMPONENT UNIT OF SAN JUAN COUNTY)
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2006

			TOTAL GOVERNMENTAL FUND
	GENERAL	CAPITAL PROJECTS	DECEMBER 31, 2006
REVENUES:			
Taxes	\$ 10,209		\$ 10,209
Charges for services	10,045		10,045
Miscellaneous	20		20
Interest revenue	299	\$ 1,538	1,837
Total revenues	<u>\$ 20,573</u>	<u>\$ 1,538</u>	<u>\$ 22,111</u>
EXPENDITURES:			
Current -			
General government	\$ 22,189		\$ 22,189
Capital outlay		\$ 62,510	62,510
Total expenditures	<u>\$ 22,189</u>	<u>\$ 62,510</u>	<u>\$ 84,699</u>
Excess of revenue over (under) expenditures	<u>\$ (1,616)</u>	<u>\$ (60,972)</u>	<u>\$ (62,588)</u>
OTHER FINANCING SOURCES (USES):			
Intergovernmental revenue	\$ 262,026	\$ 70,210	\$ 332,236
Contributions to other governments	(254,896)		(254,896)
Total other financing sources (uses)	<u>\$ 7,130</u>	<u>\$ 70,210</u>	<u>\$ 77,340</u>
Excess of revenues and other sources over (under) expenditures and other uses	<u>\$ 5,514</u>	<u>\$ 9,238</u>	<u>\$ 14,752</u>
FUND BALANCE, January 1,	<u>73,689</u>	<u>58,285</u>	<u>131,974</u>
FUND BALANCE, December 31,	<u><u>\$ 79,203</u></u>	<u><u>\$ 67,523</u></u>	<u><u>\$ 146,726</u></u>

"The accompanying notes are an integral part of this statement."

BLUFF SERVICE AREA
(A COMPONENT UNIT OF SAN JUAN COUNTY)
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2006

Amounts reported for governmental activities in the Statement of Activities are different because:

Net changes in fund balances - total governmental funds	\$	14,752
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Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets are allocated over their useful lives and reported as depreciation expense. This is the amount by which capital outlays (\$62,510) exceeded depreciation (\$17,746) in the current period.		44,764
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The issuance of long-term debt (e.g., notes payable) provide current financial resources to governmental funds, while the repayment of them consumes the current financial resources of governmental funds. In the Statement of Activities, payment on notes payable is not recorded. The net effect of these differences in the treatment of notes payable is as follows:

Repayment of notes payable		475
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Change in net assets of governmental activities	\$	59,991
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"The accompanying notes are an integral part of this statement."

**BLUFF SERVICE AREA
(A COMPONENT UNIT OF SAN JUAN COUNTY)
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006**

1. SUMMARY OF SIGNIFICANT ACCOUNTING AND REPORTING POLICIES

A. Reporting Entity

The Bluff Service Area, (formerly San Juan County Service Area No. 1), was created as a special service district by the San Juan County Commissioners. An Administrative Control Board controls the Service Area. The Board's authority is derived from the County Commissioners, who have ultimate responsibility for the Service Area. In January of 2006 Bluff Service Area and Bluff Water Works became two separate entities. Bluff Water Works assumed some of the assets and liabilities that had formerly been Bluff Service Area's. Bluff Service Area changed from an enterprise fund to a governmental fund.

The financial statements of the Bluff Service Area have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to local governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

The basic criteria for including an entity, a board, or an agency in this report is the existence and exercise of financial accountability by the Service Area Board. In addition to financial accountability, consideration has been given to financial interdependency, ability to designate management, ability to significantly influence operations, and accountability for fiscal matters. There are no other entities, boards, or agencies that are required to be included in the Service Area's financial statements. However, the Service Area is considered a "Component Unit of San Juan County" since the Service Area meets the criteria set forth in the Governmental Accounting Standards Board statement Number 14, "The Financial Reporting Entity," regarding component units.

B. Government-Wide Financial Statements

The government-wide financial statements consist of the statement of net assets and the statement of activities. For the most part, the effect of inter-fund activity has been removed from these statements.

The statement of activities demonstrates the degree to which the direct expense of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function.

1. SUMMARY OF SIGNIFICANT ACCOUNTING AND REPORTING POLICIES

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied.

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recognized in the accounting period in which they are earned and become measurable and expenses are recognized in the period incurred, if measurable. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. The use of financial resources to acquire capital assets are capitalized as assets in the government-wide financial statements, rather than reported as expenditures.

Governmental fund financial statements are reported using the current financial resources measurement focus and modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period when revenues can be used to pay accrued expenditures. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to claims and judgments, are recorded only when payment is due.

The government reports the following major governmental funds:

General Fund - The General Fund is the Service Area's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

Capital Projects Fund - The Capital Projects Fund is used to account for financial resources to be used for the acquisition or construction of major capital assets.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the government wide financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

When both restricted and unrestricted resources are available for use, it is the Service Area's policy to use restricted resources first then unrestricted resources, as they are needed.

1. SUMMARY OF SIGNIFICANT ACCOUNTING AND REPORTING POLICIES (Continued)

D. Capital Assets

Capital assets, which include, land, buildings, and equipment are reported in the government-wide financial statements. Capital assets are defined by the Service Area, as an asset with an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. When capital assets are disposed, the cost and applicable accumulated depreciation are removed and the resulting gain or loss is recorded in operations. Buildings and equipment of the Service Area are depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	7 - 40 years
Equipment	3 - 5 years

E. Budgetary Data

The system of budgeting used by the Service Area complies primarily with the procedures outlined in the "State of Utah Uniform Accounting Manual for Special Districts," which is in accordance with generally accepted accounting principles. Budgets are presented on the modified accrual basis of accounting for all governmental funds. All annual appropriations lapse at year-end.

The Service Area follows the budgetary practices and procedures required by State law. These requirements are summarized as follows:

1. The Service Area adopts a formal budget.
2. The budget is a complete financial plan that identifies all estimated revenues and all appropriations for expenditures for the year. The budget for the general fund must balance – that is estimated revenues and expenditures must equal.
3. On or before November 1, the Service Area Treasurer prepares a tentative budget and files it with the Administrative Control Board.
4. The tentative budget is a public record and is available for public inspection for at least ten days prior to public hearings held to consider adoption of the budget.
5. Notice of the scheduled public hearings is published at least seven days prior to the meetings.
6. Public hearings are held on the tentatively adopted budget. Members of the public may comment on the budget and recommend changes to the Administrative Control Board.
7. The Administrative Control Board considers the comments made by the public and makes final adjustments to the budget.
8. By December 31, the Administrative Board adopts the budget by resolution. A copy of the budget is certified by the County Auditor and is filed with the State Auditor within thirty days of adoption. A certified copy of the budget is available for public inspection.

1. SUMMARY OF SIGNIFICANT ACCOUNTING AND REPORTING POLICIES (Continued)

F. Cash and Cash Equivalents

The Service Area's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of six months or less from the date of acquisition. Investments are reported at fair value.

G. Compensated Absences

There were no employees of the Service Area who at year-end had any payroll benefits to accrue for compensated absences.

H. Net Assets/Fund Balances

The difference between assets and liabilities is "Net Assets" on the government-wide financial statements and "Fund Balance" on the governmental fund financial statements. Net assets are divided into these categories, investment in capital assets (net of related debt), restricted, and unrestricted. Net assets are reported as restricted when constraints are placed upon them by external parties or are imposed by constitutional provisions or enabling legislation.

In the governmental fund financial statements, fund balances are classified as reserved, unreserved designated, or unreserved undesignated. Reserves represent those portions of fund balance not appropriable for expenditure or legally segregated for a specific future use. Designated fund balances represent tentative plans for future use of financial resources.

I. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the basic financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from those estimates.

2. DEPOSITS AND INVESTMENTS

Deposits and investments for the Service Area are governed by the Utah Money Management Act (Utah Code, Title 51, Chapter 7) and rules of the State of Utah Money Management Council.

The Service Area follows the requirements of the Utah Money Management Act (Utah Code, Section 51, Chapter 7) in handling its depository and investment transactions. The Act requires the depositing of Service Area funds in a qualified depository. The Act defines a qualified depository as any financial institution whose deposits are insured by an agency of the Federal Government and which has been certified by the State Commissioner of Financial Institutions as meeting the requirements of the Act and adhering to the rules of the Utah Money Management Council.

2. DEPOSITS AND INVESTMENTS (Continued)

Deposits

The Service Area maintains a cash and investment pool that is available for use by all funds. Each fund type's portion of this pool is displayed on the fund financial statements as cash and investments. Income from the investment of pooled cash is allocated based on each fund's portion of the pool. In addition, investments are separately held by the capital project fund.

Custodial Credit Risk

Custodial credit risk is the risk that, in the event of a bank failure, the Service Area's deposits may not be returned to it. The Service Area does not have a formal deposit policy for custodial credit risk. At December 31, 2006, the Service Area's bank balance of cash on deposit was \$108,652 and of this amount \$100,000 was insured.

Investments

The Money Management Act defines the types of securities authorized as appropriate investments for the Service Area and the conditions for making investment transactions. Investment transactions may be conducted only through qualified depositories, certified dealers, or directly with issuers of the investment securities.

Statutes authorize the Service Area to invest in negotiable or nonnegotiable deposits of qualified depositories and permitted negotiable depositories; repurchase and reverse repurchase agreements; commercial paper that is classified as "first tier" by two nationally recognized statistical rating organizations, one of which must be Moody's Investors Services or Standard & Poor's; bankers' acceptances; obligations of the United States Treasury including bills, notes, and bonds; bonds, notes, and other evidence of indebtedness of political subdivisions of the State; fixed rate corporate obligations and variable rate securities rated "A" or higher, or the equivalent of "A" or higher, by two nationally recognized statistical rating organizations; shares or certificates in a money market mutual fund as defined in the Act; and the Utah State Public Treasurer's Investment Fund.

As of December 31, 2006, the District had the following investments and maturities:

Investment Type	Fair Value	Investment Maturities (in Years)			
		Less Than 1	1-5	6-10	More than 10
Wells Fargo Bank/ Bank Certificates	\$ 10,564	\$ 10,564			
Zions First National Bank/ Bank Certificates	26,998	26,998			
Total Investments	<u>\$ 37,562</u>	<u>\$ 37,562</u>	<u>\$...</u>	<u>\$...</u>	<u>\$...</u>

2. DEPOSITS AND INVESTMENTS (Continued)

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Service Area manages this risk in part by investing in certificates of deposit. The Service Area also manages its exposure to fair value loss arising from increasing interest rates by complying with the State's Money Management Act. Section 51-7-11 of the Act which requires that the remaining term to maturity of investments may not exceed the period of availability of the funds to be invested. The Act further limits the remaining term to maturity on all investments in commercial paper, bankers' acceptance, fixed rate negotiable deposits, and fixed rate corporate obligations to 270-365 days or less. In addition, variable rate negotiable deposits and variable rate securities may not have a remaining term to final maturity exceeding 2 years.

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Service Area has not adopted a formal policy with regards to credit risk on investments but the Service Area informally follows the policy for reducing its exposure to credit risk by complying with the State's Money Management Act as previously discussed.

At December 31, 2006, the Service Area had the following investments and quality ratings:

<u>Investment Type</u>	<u>Fair Value</u>	<u>AAA</u>	<u>AA</u>	<u>A</u>	<u>Unrated</u>
Bank Certificates of Deposit	\$ 37,562				\$ 37,562
Total	<u>\$ 37,562</u>	<u>\$...</u>	<u>\$...</u>	<u>\$...</u>	<u>\$ 37,562</u>

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The Service Area's informal policy for reducing this risk of loss is to comply with the Rules of the Money Management Council. No more than 5% of all funds may be invested in securities of a corporation that has been in continuous operation for less than three years. No more than 5% of the outstanding voting securities of any one corporation may be held. In addition, Rule 2 limits investment concentrations in certain types of investments. Rule 17 of the Money Management Council limits investments in a single issuer of commercial paper and corporate obligations to 5-10% depending upon the total dollar amount held in the portfolio.

Custodial Credit Risk

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Service Area will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Service Area does not have a formal policy for custodial credit risk. As of December 31, 2006, the Service Area had \$37,562 invested in the bank Certificates of Deposit and was held by them.

3. CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2006 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental-type activities:				
Capital assets not being depreciated:				
Land	\$ 39,300			\$ 39,300
Work in progress		\$ 62,510		62,510
 Total capital assets not being depreciated	 \$ 39,300	 \$ 62,510	 \$...	 \$ 101,810
Capital assets being depreciated:				
Buildings/Improvements	\$ 628,590		\$ (72,164)	\$ 556,426
Water System/Improvements	1,431,103		(1,431,103)	
Equipment	23,279		(9,000)	14,279
 Total capital assets being depreciated	 \$ 2,082,972	 \$...	 \$ (1,512,267)	 \$ 570,705
Less accumulated depreciation for:				
Buildings/Improvements	\$ 98,349	\$ 14,972		\$ 113,321
Water System/Improvements	475,953		\$ (475,953)	
Equipment	7,294	2,775		10,069
 Total accumulated depreciation	 \$ 581,596	 \$ 17,747	 \$ (475,953)	 \$ 123,390
 Total capital assets, being depreciated, net	 \$ 1,501,376	 \$ (17,747)	 \$ (1,036,314)	 \$ 447,315
 Government-type activities capital assets, net	 \$ 1,540,676	 \$ 44,763	 \$ (1,036,314)	 \$ 549,125

In January 2006 Bluff Water Works and Bluff Service Area became separate entities. Bluff Water Works now has control and possession of the capital assets that appear in the above table as decreases of Bluff Service Area's records.

4. LONG-TERM DEBT

With the separation of Bluff Service Area and Bluff Water Works, Bluff Water Works assumed the obligations of the Revenue Bonds and the Rural Development Note Payable formerly held and recorded by Bluff Service Area. The only long-term debt that remained with the Service Area was the following Note Payable.

Note Payable –

The Service Area received funds from the Department of Natural Resources, Utah Energy Office. The loan was provided to make energy improvements in the Community Center. The original loan contract was for \$ 10,000, but the Service Area only used and requested \$5,900. The loan had an interest rate of zero percent, with payments due every six months in the amount of \$ 775, until the loan was paid off. The final payment was made during 2006.

Change in long-term liabilities

Long-term liability activity for the year ended December 31, 2006, was as follows:

	Bonds/Notes Payable Beginning Balance	New Additions	Reductions	Bonds/Notes Payable Ending Balance	Due Within One Year
Business-Type Activities:					
Bonds Payable:					
Water Revenue Bonds	\$ 8,135		\$ 8,135		
Water Revenue Bonds - Series 1996B	21,902		21,902		
Notes Payable:					
Rural Development Loan	36,743		36,743		
Utah Energy Office	474		474		
Totals	\$ 67,254	\$...	\$ 67,254	\$...	\$...

5. RISK MANAGEMENT

The Service Area is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disaster. To more economically cover these liabilities, they joined together with other cities and governmental entities to form a public entity risk pool that operates as a common risk management and insurance program. The Service Area pays an annual premium to the risk management pool for its third party liability insurance coverage. The agreement forming the risk management pool provides that the pool will be self-sustaining through member premiums and will reinsure through commercial company at various levels of risk.

6. BUDGET COMPLIANCE

The Combined Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual - discloses budgetary compliance on a functional level as required by generally accepted accounting principles. Utah State law requires that budgetary compliance be measured on a fund level. During the year ended December 31, 2006, the Service Area did not have any unfavorable variances in any of their funds.

7. RESERVED/RESTRICTED FUND BALANCE

Fund balances at December 31, 2006 in the Capital Projects Fund have been reserved and restricted for the development of the Wastewater Project and the Secondary Water Project as follows:

Capital Projects Fund	\$ 67,523
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8. RELATED PARTY TRANSACTIONS

The Service Area does not have any related party transactions for the year 2006, nor are any individuals or companies deemed to be a related party.

BLUFF SERVICE AREA
(A COMPONENT UNIT OF SAN JUAN COUNTY)
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2006

	GENERAL FUND			VARIANCE WITH BUDGET FAVORABLE (UNFAVORABLE)
	ORIGINAL BUDGET AMOUNT	FINAL BUDGET AMOUNT	ACTUAL AMOUNTS	
REVENUES:				
Property taxes	\$ 7,800	\$ 7,800	\$ 10,209	\$ 2,409
Charges for services	10,620	10,620	10,045	(575)
Miscellaneous income	20	20	20	
Interest Income	250	250	299	49
Total revenues	\$ 18,690	\$ 18,690	\$ 20,573	\$ 1,883
EXPENDITURES:				
General government	\$ 25,884	\$ 25,820	\$ 22,189	\$ 3,631
Total expenditures	\$ 25,884	\$ 25,820	\$ 22,189	\$ 3,631
Excess of revenues over (under) expenditures	\$ (7,194)	\$ (7,130)	\$ (1,616)	\$ 5,514
OTHER FINANCING SOURCES (USES):				
Intergovernmental revenue	\$ 262,090	\$ 262,026	\$ 262,026	
Contributions to other governments	(254,896)	(254,896)	(254,896)	
Total other financing sources	\$ 7,194	7,130	\$ 7,130	\$...
Excess of revenues and other sources over (under) expenditures and other uses			\$ 5,514	\$ 5,514
Fund balances - beginning of year			73,689	73,689
Fund balances - end of year	\$...	\$...	\$ 79,203	\$ 79,203

"The accompanying notes are an integral part of this statement."

SMUIN, RICH & MARSING

CERTIFIED PUBLIC ACCOUNTANTS

294 East 100 South

Price, Utah 84501

Phone (435) 637-1203 • FAX (435) 637-8708

CRAIG G. SMUIN, C.P.A.
R. KIRT RICH, C.P.A.
GREG MARSING, C.P.A.
DOUGLAS RASMUSSEN, C.P.A.

MEMBERS

AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS
UTAH ASSOCIATION OF CERTIFIED PUBLIC ACCOUNTANTS

Administrative Control Board
Bluff Service Area
P. O. box 310
Bluff, Utah 84512-0310

RE: Report on Compliance and on Internal
Control Over Financial Reporting Based
on an Audit of Financial Statements
Performed in Accordance With
Government Auditing Standards

We have audited the financial statements of the governmental activities and each major fund of Bluff Service Area as of and for the year ended December 31, 2006, and have issued our report thereon dated July 31, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Service Area's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Service Area's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements but not for the purpose of expressing an opinion on the effectiveness of the Service Area's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Service Area's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Service Area's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Service Area's financial statements that is more than inconsequential will not be prevented or detected by the Service Area's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Service Area's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

We noted no matters involving the internal control over financial reporting and its operation that we considered to be material weaknesses.

This report is intended solely for the information and use of management, others within the organization, and the Administrative Control Board and is not intended to be and should not be used by anyone other than these specified parties.

SMUIN, RICH & MARSING

A handwritten signature in cursive script, appearing to read "Laurie R. Smith".

Price, Utah

July 31, 2007

SMUIN, RICH & MARSING

CERTIFIED PUBLIC ACCOUNTANTS

294 East 100 South

Price, Utah 84501

Phone (435) 637-1203 • FAX (435) 637-8708

CRAIG G. SMUIN, C.P.A.
R. KIRT RICH, C.P.A.
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DOUGLAS RASMUSSEN, C.P.A.

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Administrative Control Board
Bluff Service Area
Bluff, Utah 84512-0310

Re: Report on Legal Compliance with Applicable
Utah State Laws and Regulations

We have audited the accompanying financial statements of the governmental activities and each major fund of Bluff Service Area for the year ended December 31, 2006, and have issued our report thereon dated July 31, 2007.

As part of our audit, we have audited the Service Area's compliance with the requirements governing types of services allowed or unallowed; eligibility; matching, level of effort, or earmarking; reporting; and special tests and provisions applicable to each of its major State assistance programs as required by the State of Utah Legal Compliance Audit Guide for the year ended December 31, 2006. The Service Area received the following major State assistance program from the State of Utah:

Community Impact Board (Department of Community and Economic Development)

The District received the following non-major state grants during the year ended December 31, 2006:

Department of Agriculture (Mosquito Abatement)

Our audit included testwork on the Service Area's compliance with those general compliance requirements identified in the State of Utah Legal Compliance Audit Guide, including:

Public Debt

Purchasing Requirements

Special Districts

Cash Management

Budgetary Compliance

Other Compliance Requirements

The management of the Service Area is responsible for the Service Area's compliance with all compliance requirements identified above. Our responsibility is to express an opinion on compliance with those requirements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether material noncompliance with the requirements referred to above occurred. An audit includes examining, on a test basis, evidence about the Service Area's compliance with those requirements. We believe that our audit provides a reasonable basis for our opinion.

The results of our audit procedures disclosed immaterial instances of noncompliance with the requirements referred to above, which are described in the accompanying management letter. We considered these instances of noncompliance in forming our opinion on compliance, which is expressed in the following paragraph.

In our opinion, Bluff Service Area complied, in all material respects, with the general compliance requirements identified above and the requirements governing types of services allowed or unallowed; eligibility; matching, level of effort, or earmarking; reporting; and special tests and provisions that are applicable to its major State assistance program for the year ended December 31, 2006.

SMUIN, RICH & MARSING

A handwritten signature in cursive script, appearing to read "Laura Ruth E. Marsing", written in dark ink.

Price, Utah

July 31, 2007

SMUIN, RICH & MARSING

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UTAH ASSOCIATION OF CERTIFIED PUBLIC ACCOUNTANTS

Bluff Service Area
Bluff, Utah 84512-0310

Ladies/Gentlemen:

The following comments and recommendations are a result of our review of the accounting procedures and internal controls in connection with our examination of the financial statements of Bluff Service Area for the year ended December 31, 2006.

Since our review was made primarily to determine the scope of our auditing procedures and was not intended as a comprehensive study or evaluation of the systems and procedures, this memorandum should not be considered all inclusive.

We welcome the opportunity to discuss any items mentioned in this memorandum or any other accounting or procedural questions.

Fund Balance Limitations

According to Utah State Code, Districts are permitted to accumulate earnings or fund balances, as appropriate, in any fund. With respect to the General fund only, any accumulated fund balance is restricted to the following criteria:

- The greater of:
1. 100% of the current year's property tax; or
 2. 25% of the total general fund's revenues, if the annual general fund budget is greater than \$100,000 or 50% of the total general fund's revenues, if the annual general fund budget is equal to or less than \$100,000.

The District's General fund balance is in excess of the amount allowed by Utah State Code.

We recommend that the Service Area review the criteria for the limitations on the fund balance for the General fund and make the necessary adjustments in the current calendar year.

Service Areas' Response

We will review the Utah State Code in relation to the General fund's fund balance and make the necessary corrections in the current calendar year.

Internal Control – Board Involvement

The board of trustees involvement in the receipting, disbursements and safeguarding of assets is very critical, because the District depends on virtually one person to perform most of the financial processes.

We recommend the board of trustees review their involvement in the financial processes and make necessary changes to ensure they are taking a very active roll in the reviewing of transactions and supporting documentation, reviewing bank statement reconciliation's, bank depositing, receipting of funds and other pertinent financial and internal control transactions.

Service Areas' Response

The board of trustees understands the need to be involved in all aspects of the operations of the District. We have implemented procedures that help minimize the risks of having virtually one person involved in the financial processes. As the board of trustees, we will continue to monitor and review the areas that we feel are most critical in our operations. Because we do not have the luxury of employing enough staff to segregate these duties, we as the board will follow the recommendations of the auditor.

Recording Transactions Properly

While reviewing the cash disbursements (checks), we found that when comparing the date on the actual check, it was not always the same date in the computer program. The checks were issued and cashed, the same information was not recorded properly.

We recommend the Service Area inspect all of their cash disbursements (checks) and review these with the entries in the computer program. A board member could be assigned to review the entries on all transactions and compare these to computer printouts. This would help to ensure that the printed checks and information in the computer program are the same.

Service Areas' Response

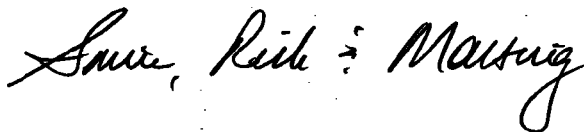
We realize that prepared documents should be the same in all items, when compared to recorded information in our computer program. We will take the time to review these transactions and ensure that the information is accurately recorded.

SUMMARY

We feel the accounting procedures and internal control items mentioned above are some areas where Bluff Service Area can make changes so as to further improve their internal control structures to safeguard the assets, check the accuracy and reliability of accounting data and promote operating efficiency.

Sincerely,

SMUIN, RICH & MARSING



July 31, 2007

Price, Utah